



## Core Unit 2 – Regulation of Retirement Provision

### Assignment 1 Notes

*(Part 1 – The Taxation and Regulation of Retirement Provision)*

*Recommended Time: 1 Hour*

1. **Prepare short notes describing the record keeping duties of the Scheme Administrator of a registered pension scheme**

**10 marks**

Answer should cover:

The main statutory duties of the Scheme Administrator relate to the requirements to keep records and to convey certain information to other parties in certain circumstances.

#### **Record Keeping Requirements:**

The Scheme Administrator is required to preserve certain documents. The documents in question are those in their possession or under their control that relate to the administration of the scheme and include:

- any monies received by or owing to the scheme;
- any investments or assets held by the scheme;
- any payments made by the scheme;
- any contracts to purchase a lifetime annuity in respect of a member of the scheme; and
- the administration of the scheme.

The documents must be preserved for the tax year to which they relate and for the following 6 tax years. If a person has ceased acting for the scheme or providing administrative services to the scheme, they are not required to retain the documents if another person has succeeded them in their duties and the documents have been transferred to that other person.

(Relevant section of the manual is Part 1 Chapter 1.2.1)



2. **Describe the role of the Pensions Regulator.**

**10 marks**

Answer should cover:

The Pensions Regulator is the UK regulator of work-based pension schemes. A work based pension scheme is any scheme that an employer makes available to employees; this includes all occupational schemes and any stakeholder and personal pension schemes where employers have direct payment arrangements.

The Pensions Regulator has the following statutory objectives:

- To protect the benefits of members of work based pension schemes;
- To promote good administration of work based pension schemes;
- To reduce the risk of situations arising that may lead to claims for compensation from the Pension Protection Fund (see Part 1 Chapter 3.3);
- To maximise compliance with the duties relating to automatic enrolment imposed on employers and to ensure adherence to the safeguards that protect employees which are introduced by Pensions Act 2008 in connection with automatic enrolment.
- To minimise any adverse impact on the sustainable growth of an employer

(Relevant section of the manual is Part 1 Chapter 3.2)

3. **Outline the role of the Financial Services Compensation Scheme.**

**5 marks**

Answer should cover:

The FSCS is an independent body, set up under the Financial Services and Markets Act 2000 (FSMA). It is the UK's statutory fund of last resort for customers of financial services firms and can pay compensation to consumers. Before a claim can be paid, the FSCS has to first declare that the provider or adviser is in default. Essentially this means that it firm is unable, or likely to be unable, to pay claims against it, generally because the firm has stopped trading and has insufficient assets to meet claims or is in insolvency. The FSCS will conduct an investigation to establish this.

The FSCS protects consumers who have incurred financial loss when regulated firms are unable, or likely to be unable, to pay claims against them relating to:

- deposits
- life and general insurance policies
- investment business (on or after 28 August 1988)
- advice and arranging of mortgage business (on or after 31 October 2004)
- insurance intermediation (general insurance and pure protection contracts, for business conducted on or after 14 January 2005)

(Relevant section of the manual is Part 1 Chapter 3.6)



4. **Outline the role of the Financial Conduct Authority.**

**5 marks**

Answer should cover:

The FCA is an independent financial regulator accountable to parliament through HM Treasury. Alongside the PRA, it took over from the FSA which had been established as the sole regulatory authority for financial and investment business in the UK by the Financial Services and Markets Act 2000

The FCA's strategic objective is to ensure that the relevant markets function well. To support this, its operational objectives are

- To secure an appropriate degree of protection for consumers.
- To protect and enhance the integrity of the UK financial system.
- To promote effective competition in the interests of consumers.

All firms and individuals seeking to deal in sell or give advice on financial products must be registered with, and are regulated by, the FCA, which has the authority to enforce its rules through fines, imprisonment and 'naming and shaming'.

(Relevant section of the manual is Part 1 Chapter 3.5)



5. Write short notes on “Benefit Crystallisation Events” (BCEs) and list five BCEs.

10 marks

Answer should cover:

A BCE is an event in a registered scheme which triggers a test of the member’s benefits against the Lifetime Allowance. Each time a test is made, part of the person’s Lifetime Allowance is deemed to be used up. If there is insufficient Lifetime Allowance remaining at the time of the test, then a Lifetime Allowance charge will become payable.

There are 13 BCEs. These are:

BCE1	Assets being put into ‘drawdown’ or ‘income withdrawal’
BCE2	A scheme pension coming into payment.
BCE3	An increase to a pension in payment exceeding certain permitted annual indexation levels (broadly, the greater of 5% and the increase in the RPI).
BCE4	Using the assets of a money purchase scheme to buy a ‘lifetime annuity’ for a member from an insurance company.
BCE5	A member of a defined benefit arrangement reaching age 75 without having put a scheme pension into payment.
BCE5A	A member of a money purchase arrangement reaching age 75 with funds still in drawdown.
BCE5B	A member of a money purchase arrangement reaching age 75 with funds that have not been put into drawdown and which have not been used to buy an annuity / scheme pension.
BCE5C	On or after 6 April 2015, uncrystallised funds are designated for drawdown by a dependent or nominee.
BCE5D	On or after 6 April 2015, a dependent or nominee becoming entitled to an annuity purchased using uncrystallised funds.
BCE6	The payment of a Pension Commencement Lump Sum, Uncrystallised Funds Pension Lump Sum or certain other lump sums.
BCE7	Payment of most lump sum benefits on the death of a member.
BCE8	The transfer of pension rights to a Qualifying Recognised Overseas Pension Scheme.
BCE9	Miscellaneous events as set out in regulations, principally certain lump sum payments which do not fall under BCE6 for technical reasons.

(Relevant section of the manual is Part 1 Chapter 1.3.1)



6. Explain the principal features of Primary Protection.

10 marks

Answer should cover:

The transitional arrangements that were available at 6 April 2006 were Enhanced and Primary Protection (the other forms of protection were not available until later)

Those members as at 5 April 2006 whose benefits were likely to exceed the Lifetime Allowance could “protect” rights they had under the previous tax regime in three different ways: By registering for Primary Protection, Enhanced Protection or both. Individuals were given 3 years, i.e. until 5 April 2009, to register for any of these forms of protection.

Primary Protection is available only if the value of all of a person’s pension rights exceeded the standard Lifetime Allowance at A-Day (£1.5million). Those who register for Primary Protection are given a ‘lifetime allowance enhancement factor’ (LAEF), calculated as:

$$1+ LAEF = \text{Value of pension Rights at A-day} / 1.5m$$

When there is a BCE involving an individual, who is relying on Primary Protection, the standard Lifetime Allowance applicable for that year is replaced by the individual’s personal Lifetime Allowance, calculated as:

$$\text{Personal LTA} = \text{Standard LTA} \times (1 + LAEF)$$

A person could register for both types of protection. In this case, Enhanced Protection takes priority. Primary Protection would then only apply if Enhanced Protection were lost (typically because ‘relevant benefit accrual’ had occurred).

There are other measures under the transitional arrangements that protect members who were better off under the old regime in certain other ways, for example in being able to take a greater percentage of their benefits in the form of a tax-free lump sum or in being able to retire at an earlier age.

(Relevant section of the manual is Part 1 Chapter 2.2)